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¶1. (U) Summary: Prime Minister Nazif kicked off Egypt's eighth Euromoney conference September 11-12, highlighting improvements in Egypt's economy and laying out his government's plans for the coming five years. His upbeat assessment was echoed by the economic ministers in the Cabinet, who each recited a litany of their accomplishments over the past two years and promised even greater effort to bolster economic growth in the near future. Panelists at the conference discussed challenges facing the economy, particularly the stock exchange, which has recently lost some of the gains it made over the past two years. Private sector reps at the conference complained about insider trading, and the key obstacle to economic growth, lack of access to credit. End summary.

¶2. (U) In his keynote speech, Nazif recited a familiar litany of accomplishments since taking office in mid-2004. Tariff and tax cuts, banking reform, and reduction in red tape were highlighted as irreversible structural changes that would ensure growth in the coming years. Nazif pointed out that growth had already risen 6.9 percent in FY 2005/06, driven by increased domestic consumption, surging exports, and $5 billion in FDI. While acknowledging that inflation had also risen to around 8 percent, Nazif stated that controlling inflation was less important than fostering growth. In the next 5 years, the GOE would promote public-private partnerships, particularly at the local level, in health care, education, transportation, industry and agriculture, aiming to increase FDI to $8 billion by 2011. Audience members inquired about plans to address unemployment, currently 10% per official figures. Nazif replied that growth would eventually diminish high unemployment levels.

¶3. (U) Minister of Investment Mohieldin was harshly critical of the World Bank's recent "Doing Business" report, which ranked Egypt 165 out of 175 on a range of criteria related to establishing and operating new businesses. Mohieldin insisted that his ministry's "One-stop Shop" had removed bureaucratic obstacles for new businesses. He dismissed the WB methodology, claiming that the sample survey of 16 businesses in Egypt was too small to give an accurate picture of the business operating environment. Mohieldin went on to list reforms under his portfolio, including expedited privatization, restructuring of public companies, issuance of corporate governance guidelines and reforms designed to stimulate growth in the mortgage and insurance sectors. Plans for the next few years include development of economic courts, and the opening of a small cap stock exchange and a commodities exchange for cotton, rice and possibly wheat.

¶4. (U) Minister of Finance Youssef Boutrous Ghali (YBG) touted

Egypt's successful tax reforms, noting that despite a 50 percent reduction in tax rates, revenues were up 17 percent over the previous fiscal year. The number of taxpayers filing returns increased from 1.7 million in 2005 to 2.4 million in the first half of 2006. He credited the new "trust" between the Tax Authority and taxpayers with the improvement in collection and promised pension reform would also be based on trust between pensioners and the government. Turning to the deficit, YBG reined in his previous estimates of 1.5-2 percent reductions per year over the next 5 years. He now projects reductions of 1-1.5 percent per year. Despite budget cuts, however, privatization proceeds will be used to expand social infrastructure, including education, health care and transportation, to protect the poorest members of society.

¶5. (U) The conference continued with panel discussions, including one on the Cairo and Alexandria Stock Exchange (CASE), the world's best performing emerging economy stock exchange for two years. Panelists included, inter alia, Maged Shawky, Chairman of the CASE, Hany Sarieldin, Director of the Capital Market Authority (CMA), and Mohamed Taymour, Board member of EFG Hermes, Egypt's largest investment bank. Shawky pointed out that with the advent of e-trading, retail investors have flooded the exchange, accounting for 70 percent of total trading over the past year. Many of these traders are amateurs, unable to assess market cycles, and have contributed to recent volatility on the exchange. He blamed last February's correction, when the market fell nearly 20 percent, on retail traders who panicked when Gulf investors pulled funds out of Egypt to shore up positions in their home markets. The slump highlighted the need to attract more institutional investment to stabilize the market, increase transparency of companies listed on the exchange, and educate investors.

¶6. (U) Sarieldin explained that CMA is drafting amendments to the capital markets law to authorize mutual funds, which should attract more institutional investment, and increase disclosure requirements for companies trading on the CASE. Steps are also underway to facilitate entry of new companies onto the exchange. Sarieldin noted that the CASE is dominated by a few large companies that often make up 50 percent of the trading on a given day. The CMA will begin a program to educate small and medium size enterprises (SME) about the possibilities of raising capital on the exchange, a potentially attractive alternative to the tight bank credit market.

¶7. (SBU) Comment: While the CASE panel touched on many of the challenges facing the exchange, little mention was made of the fact that insider trading is still legal in Egypt. An EFG-Hermes rep told econoff that insider trading has led many foreign investors, particularly large institutions, to avoid the exchange. Despite the problems on the stock exchange, however, most business leaders at the conference were bullish on Egypt's economy, eager to take advantage of opportunities in tourism, mining, infrastructure, construction and IT, among others. The real obstacle facing investors, according to business leaders, is lack of access to credit. While some SMEs may choose to raise capital on the stock exchange, most still prefer bank loans. The banking sector, however, remains conservative in credit assessments, making it difficult for SMEs to obtain the loans needed to establish or continue operations. End comment.
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